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February 1985

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Special equity funds take . . .

Continued from page 41

However, the fund finished near the bottom of the survey for 1984, with a return of -21.2%.

The fund's emphasis is on stocks in small but growing companies. Prices of these stocks dropped last year, even though some came through with better earnings than expected, said Ken McCain, vice president and portfolio manager. The management company is a spinoff of California First Bank, San Diego. 1984 was the fund's first down year, but it will stay with its investment strategy, which has been consistent for the past several years, he said.

"Eventually, people pay for growth," he said.

Some of the stocks the company holds are **The Price Companies, Optical Radiation** and **General Motors E**. It also has stocks in several companies in the computer-aided engineering industry.

The fund is 60% to 70% in technology stocks because those stocks have the growth potential desired by fund management, Mr. McCain said.

He looks for companies that can grow 25% to 30% in two or three years. He also looks for those with market capitalization of less than $200 million, but will buy those above that mark if they're priced attractively. "We don't exclude companies just based upon their size," Mr. McCain said.

The fund made a good move in the early 1980s by selling oil stocks before they went down, Mr. McCain said. Those stocks were dropped because fund management couldn't understand why their valuation levels were so high, he said.

"We try to make as much money as we can and avoid the disasters," he said.

Another fund whose performance plummeted in 1984 was Pacific Century Group's $12 million Growth Fund G. Pacific Century Group is a subsidiary of Security Pacific Bank, Los Angeles.

The fund had the second best compound annual return for the past three years, 27.4%. In 1984, however, its return was -24.2%, putting it near the bottom of the PIPER universe.

The fund emphasizes companies that have rapid earnings growth and are in strong market sectors, said William Duncan, vice president and senior portfolio manager. "Last year was a tough market for emerging, over-the-counter types of stocks, so we had the same problems," he said.

Mr. Duncan said he looks for good results in growth stocks in 1985. The market has been discounting the potential for a slowdown in the economy, while interest rates probably will continue to decline, he said.

Some of the stocks held by the fund are **Continuum, Mayflower Corp., Software AG** and **American Family Corp.** The fund usually stays fully invested, Mr. Duncan said.

Not being fully invested helped another fund avoid the worst of 1984 after having excellent performance for all other periods in the PIPER survey.

The $7 million special equity fund run by Provident Capital Management, a subsidiary of Provident National Bank, Philadelphia, was the third best performer for the three- and five-year periods, with compound annual returns of 26.4% and 24.9% respectively. It was fifth for the 10-year period, with a return of 23.6%.

In 1984 its return dropped to 7.7% placing it ninth, but it still outperformed the S&P 500.

"As of year-end 1983, we became concerned about some of the smaller capitalization stocks and the fact that they looked somewhat precarious," said W. Anthony Hitschler, president of the capital management firm.

Fund officials responded by putting 85% of the holdings in cash, he said.

In the middle of 1984, the fund returned to small-cap stocks with low price-earnings ratios. It now is between 75% and 80% reinvested, Mr. Hitschler said.

The fund has a large position in **Irving Bank**, New York, and also has stocks in several regional banks and three furniture companies.

"The idea was to expose ourselves to the interest rate-sensitive area of the market," said David Byerly, a Provident Capital vice president. Also, those stocks met the fund's small-cap and low P/E criteria.

The fund has been going into some aerospace and electronics stocks, while technology stocks are beginning to look more attractive.

"As things present themselves, we take a swipe at them," Mr. Byerly said.

For 1984, besides the Republic-Bank and Citicorp funds, top performers were the total return equity fund of MBank Fort Worth, Texas, third with 13.5%; the Priform fund of Prudential Asset Management Co., Newark, N.J., fourth with 12.1%; and the equity income fund of First National Bank of Neenah, Wis., fifth with 11.6%.

In the fourth quarter, the top five performers were the equity income fund of First National Bank of Neenah, Wis., with 7.2%; Provident Capital's special equity fund, with 5.5%; the special equity fund of First Trust Co. of St. Paul, Minn., with 4.4%; and the Keogh equity fund of MBank Austin, Texas, and Prudential's Priform fund, both with 4.4%. The S&P 500 returned 1.9% for the quarter.

Besides Citicorp, Pacific Century and Provident Capital, the best three-year performers were Wachovia Bank & Trust Co., Winston-Salem, N.C., fourth with 23.4%, and National City Bank of Cleveland, fifth with 21.8%.

The best five-year performers, after California First, were MTrust, Houston, with 24.9%; Provident Capital; Merchants National Bank of Mobile, Ala., fourth with 22.4%; and First National Bank of Maryland, Baltimore, fifth with 21.4%.

The top 10-year returns were posted by MTrust, 29.7%; Equitable Bank, Baltimore, 26.7%; The Chase Manhattan Bank, New York, 25.2%; Bankers Trust Co., New York, 24.1%; and Provident Capital. ■

Dollar has strong role in . . .

Continued from page 41

For the full year, FNB Chicago again ranked first, with a time-weighted total return of 16.5%.

In second place was Prudential Life Insurance Co. of America's global bond fund, with 12%.

That $57 million fund is managed actively in terms of both maturity and currency distribution, said Barry Gillman, managing director of Prudential Capital Management International, the division that oversees international investment for the firm.

The global fund's U.S. dollar exposure ranges from 25% to 75% at any given time, he said.

"One reason for good performance in 1984 was that investment decisions for most of the year kept us at the top of that range," Mr. Gillman said.

Average duration for the fund during the past year was 5.3 years, he added.

In third place for the one-year period was a representative international index account from State Street Bank & Trust Co. in Boston, with a time-weighted total return of 9.8%.

State Street manages $450 million in separate and commingled international accounts, said David Umstead, vice president and head of the international department.

"The reason we've done well is that we have a low transaction cost because we're not doing much trading," he explained. "And, with an index fund, we're not under- or overexposed in any individual country markets."

The EAFE came in at 7.9% for the year.

For three years, First of Chicago's international dollar fixed fund led the pack again, with a 20.2% time-weighted total return.

IDS Trust's international collective fund was second for the three-year period, with a 15.3% return. State Street Bank's international index fund was third, with 11.3%.

The EAFE for the three years stood at 10.1%, ranking fifth.

For the five years ended Dec. 31, 1984, U.S. Trust Co. of New York's international pooled fund, with a 15% compound annual time-weighted total return, was the premier performer.

That roughly $11 million equity fund is managed by Foreign & Colonial Asset Management in London, which does all the international investing for U.S. Trust.

One of two value-based judgments is used during the equity selection process, depending on the particular country involved, explained John K. Holland, vice president of U.S. Trust.

"We are top-down/bottom-up in those markets that are less liquid but where opportunities exist," he said. "In other markets which are more mature and broad-based, such as Japan or the United Kingdom, we use a bottom-up emphasis.

"This has traditionally proven to be the most successful approach over the long term," he said.

Second for the five years was the EAFE, with a 10.4% time-weighted total return.

Running neck-and-neck with the index was the international equity fund of American National Bank in Chicago with 10.4%.

For 10 years, Morgan Guaranty Trust Co. in New York was the leader, with a 16% time-weighted total return on its international equity fund.

U.S. Trust was second with 15.4%, and the EAFE placed third with 14.8%.

In this survey, equity and fixed-income commingled funds are compared directly because so few exist; the universe of international funds is small but growing.

Rogers, Casey & Barksdale Inc. of Stamford, Conn., compiles the statistics for PIPER. ■

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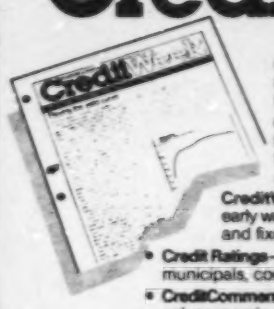

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National Can . . .

Continued from page 1

the company removes its 4.5 million-share portion of the tender offer from the outstanding stock, the ESOP will have 50.1%.

National Can said that if two major shareholders, NVF and Teledyne Inc., do not tender any shares or otherwise decrease their holdings by at least 378,316 shares by selling to people who subsequently tender them, the minimum condition of the offer cannot be met, even if all other shares are tendered.

Under those conditions, the company and ESOP would not be obligated to buy any shares.

National Can officials have said they understand Teledyne intends to tender all or most of its shares, subject to review of the tender offer, but they don't know NVF's intentions.

Because of their stock ownership, NVF is and Teledyne might be an "interested party," National Can said. As such, their shares are not eligible for purchase by the ESOP.

NVF owns more than 3.6 million shares, about 36% of National Can's outstanding stock, and represents 26.2% of the voting power of the outstanding stock. On a fully diluted basis, NVF has about 35.5% of the shares and 25.5% of the voting power.

Teledyne, through various subsidiaries, owns 1.28 million shares, or 13.4% of outstanding stock, and represents 9.2% of voting power. On a fully diluted basis, it has about 12.5% of the shares and 9% of the voting power.

The deal will cost National Can $216 million. ESOP experts had several things to say about the offer.

Issuing preferred stock to an ESOP with four votes per share is "unique," according to Corey Rosen, an associate at the National Center for Employee Ownership. "That breaks new ground."

Many companies are using ESOPs to fight takeovers, but a recent decision in the 2nd Circuit Court of Appeals in New York held the establishment of an ESOP in the heat of a takeover was a violation of the business judgment rule. Under that rule, the courts won't second-guess corporate director decisions unless there is a conflict of interest, noted Greg Brown, an ESOP expert and partner in the Chicago law firm of Keck, Mahin & Cate.

"If (Mr. Posner) challenges this, I'd expect him to use something along those lines," Mr. Brown said.

The attraction of using an ESOP in a takeover battle increased tremendously last summer with the passage of the Deficit Reduction Act of 1984, which created several additional tax advantages to encourage formation of ESOPs.

Under the new law, lenders can offer below-prime financing because they can exclude from taxes 50% of the interest income on loans used to buy securities for an ESOP. Also, a company can take a deduction on cash dividends paid on ESOP-owned securities if passed through to plan participants, which lowers corporate taxes and makes the ESOP more attractive to employees.

Another feature of National Can's ESOP is the selection of prestigious, well-known figures in the Chicago business community, rather than National Can executives, to serve as trustees.

They are Chemetron Corp. Chairman John Gallagher, now a senior lecturer at the University of Chicago Graduate School of Business; Donald Haider, professor of management at the J.L. Kellogg Graduate School of Management at Northwestern University; and Jayne Thompson, wife of Gov. James Thompson and director of development and house counsel of the National College of Education.

The trustees will vote all of the newly issued preferred stock and all common stock bought through the tender offer in accordance with the instructions of employee participants, National Can said.

The selection of the three as trustees is seen as an attempt to negate conflict-of-interest questions about the use of an employee benefit plan to fight a potential takeover. "That's real astute, real shrewd," said Mr. Brown. "They know they're in for criticism."

If the tender offer succeeds, analysts don't expect the near-doubling of the firm's debt will create any serious problems.

"Nobody likes to have this much debt, but they have the cash flow to handle it," said Arthur Stupay, senior vice-president at Cleveland's Prescott, Ball & Turben. But the company will have less ability "to make acquisitions, expand agressively. There will be less room for mistakes," he noted. ■

Pension fund salaries . . .

Continued from page 1

parable salary levels for the different functions involved in administering the average corporate pension plan.

While 18% of pension executives are paid more than $80,000, only 8% are making more than $100,000, the Greenwich Research survey showed.

Only 1% of corporate executives receive from $120,000 to $130,000 annually, 1% are in the $130,000 to $140,000 category and 2% receive more than $150,000.

In terms of plan asset size, corporate pension executives running funds of more than $200 million received an average salary of about $70,000 annually with a $12,000 bonus. Plans of $50 million to $200 million paid the average pension administrator roughly $62,000 and a bonus of $11,000.

Executives managing plans of $50 million or less received the highest levels of any surveyed, or $71,000 annually with bonuses of about $14,000, according to the Greenwich survey.

As expected, public fund officials were paid roughly $24,000 a year less than their corporate counterparts, said the Greenwich report.

The mean public pension administrator's salary was about $44,000. Bonuses were a factor in only 5% of the public fund interviews conducted by Greenwich Research.

Thirteen percent of public fund executives make less than $30,000 annually and 9% of them bring home more than $60,000 a year. Only 1% of the total surveyed by Greenwich reported making from $75,001 to $80,000, while none made more than that.

Public fund executives making the highest mean salaries, roughly $51,000, were those from funds totaling more than $500 million in assets. The lowest mean salaries, of $37,000 annually, were paid public executives in charge of funds with less than $25 million in assets, said the Greenwich Research study.

Likewise, the Peat, Marwick survey found "a fair correlation between fund asset size and the pay of the pension fund officer."

"The total compensation of pension fund officers is significantly higher when they report to the chief financial officer than when they are another level removed, regardless of the size of the funds managed," the survey said.

"Location on the organizational chart seems to be more significant than financial responsibility," concluded the Peat, Marwick study.

The median fund in this survey totaled $798 million in assets and the mean totaled $1.27 billion.

Total pay for the top corporate pension fund officer averaged $97,000, while the median was about $68,000, said the Peat, Marwick survey. The pension fund officer in the survey normally was one level below the company's chief financial officer.

Executives who were second in command, under the pension fund officer, were paid on average of roughly $68,000 annually. The median second executive received about $51,000 in total compensation.

Those pension fund officers reporting directly to the chief financial officer who were in the top decile ranking of the survey were paid about $174,000 annually, and those in the bottom decile made a total of about $52,000 a year, said the Peat, Marwick study.

The second corporate fund executive in the top decile received $136,000 a year and those in the lowest decile received $35,000 a year in total compensation, according to the survey.

Many former and current pension executives interviewed professed surprise that salary levels seemed to have crept up in the past few years, but they admit there is still a disheartening gap between how much any pension officer can earn on the buy-side as opposed to his or her sell-side counterpart.

"Salaries are making progress in the right direction," said David Tierney, principal of Richards & Tierney, a consulting firm, in Chicago. Mr. Tierney was administrative manager-investments at Standard Oil Co. (Indiana) before starting his own firm.

"But it isn't clear whether the investment community is overpaid or the pension community is underpaid," he said.

"From the corporate point of view it's difficult, because companies don't make pensions, they make widgets."

While pension executives are likely to press for higher salaries, it is a difficult situation, because in some cases the fund executive does not bear the identical burden of the outside money manager.

"People on the buy side have to understand that maybe compensation will never match that of the sell side because they have the backing of the corporate community," he pointed out.

Many plan officials believe the buck most often stops with the pension fund administrator and that executive compensation levels should be raised because of it. ■

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Chrysler plans diversification move

By Marci Baker

DETROIT — Chrysler Corp., planning to expand its financial services capability in a diversification move, might make an acquisition or launch new services internally this year.

The automaker reportedly considered acquiring some or all of the financial units of ITT Corp., which is pursuing a $1.7 billion divestiture plan, but rejected the idea because the units were too pricey.

Frederick Zuckerman, Chrysler treasurer, declined to comment on the ITT report. He did confirm, however, that the company hopes to diversify in the financial services area this year.

"We've been thinking about doing this for a number of months," to augment the potential of its subsidiary Chrysler Financial Corp., he said.

Until now, the 20-year-old credit subsidiary has focused solely on providing loans to the automobile retail and wholesale market. The auto company, however, could win "substantial tax advantages" by expanding into other areas, Mr. Zuckerman said.

Corporate finance

Chrysler's tax liability was nominal last year, but the situation will change this year.

"Our book taxes will be under 30% of pretax profit," he said, declining to specify the amount.

Another key motivation is that financial services, when well run, can be less cyclical than the company's mainstream auto business and could offset its vulnerability to swings in the economy.

Chrysler's plan to move more heavily into financial services comes as the automaker has launched a five-year, $10.5 billion

Continued on page 52

Late news

PBGC shifts stance

WASHINGTON — The Pension Benefit Guaranty Corp. has dropped its effort to impose contingent liability upon sellers of a weak subsidiary with an underfunded pension plan to another firm.

A PBGC-prepared draft bill also would drop rules imposing additional liability to participants for unguaranteed benefits.

Continued on page 2

Pensions & Investment Age

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Grumman liability ruling backs DOL

By Joel Chernoff

NEW YORK — Overturning a lower court ruling, a federal court of appeals has ruled that trustees of the Grumman Corp. pension plan may be held liable for using plan assets in averting an aborted takeover bid by The LTV Corp.

The 2nd U.S. Circuit Court of Appeals found the trustees may have to pay damages to the pension fund, even though the fund ultimately made a $13.2 million profit on shares of Grumman stock it had bought at inflated prices to help avert the takeover.

The decision means that, even if a pension fund ultimately profits financially from the action, trustees still may be liable if the use of plan assets in fending off a takeover results in a short-term loss.

The ruling represents at least a partial victory for the Department of Labor in its efforts to collect damages for the Bethpage, N.Y., company's $1.2 billion pension fund.

However, the appeals court rejected the Labor Department's theory of calculating damages in favor of one that would cause much smaller claims to be repaid.

Instead of more than $20 million being owed to the fund, DOL sources now say that liability may reach $5 million.

The appeals court remanded the case to the U.S. District Court in Uniondale, N.Y., to determine the level of damages. No hearing date has been scheduled.

"I have to characterize (the decision) as a victory," said Alan Lebowitz, the acting U.S. pension administrator.

"That being said, we're still evaluating the decision," he added.

Ian Lanoff, the former U.S. pension chief who brought the lawsuit in 1981, said, "It's an extremely important victory. This makes it clear that if you're imprudent, you're going to pay damages."

David Hyde, an attorney at Cahill, Gordon & Reindel, New York, who represented Grumman, declined to comment on the decision because the case is still in litigation.

However, he said Grumman is not likely to ask the U.S. Supreme Court to review the appeals court decision, nor settle the case before it reaches the district court.

In October 1981, three Grumman pension fund trustees who were also top corporate officials directed the pension fund to purchase an additional 1.16 million shares of company stock in the face of a hostile takeover attempt by Dallas-based LTV.

Those officials were John Bierwirth, chairman and chief executive officer of Grumman; Robert Freese, senior vice president and treasurer; and Carl A. Paladino, senior vice president and treasurer of Grumman Aerospace, a subsidiary.

The shares were purchased at an average price of $38.34 per share; the stock had been trading at below the $25 level prior to the tender offer, and sank to $23 per share after the takeover fell through.

However, the 1982 bull market caused Grumman stock values to soar, enabling the fund to sell the

Continued on page 52

Zeros form base of fund dedication

By Richard J. Gillespie

GREENWICH, Conn. — Arnold Foods Co. has set up dedicated portfolios for retired and active vested liabilities, and has established an unusual fixed-income-rate portfolio for current plan members.

The company, which has pension assets of $13 million, used a combination of zero-coupon bonds, Ginnie Maes and even certificates of deposit issued by savings and loan institutions in the fixed-income portfolio.

With one of the dedicated techniques, carried out by EMG Advisors of Fairfield, Conn., the company funded retired lives liabilities — with a par value of $6.7 million — with a portfolio of zero-coupon U.S. government bonds costing $2.93 million.

Arnold Foods was spun off from Continental Grain last year, when it Continental sold Orowheat Foods Co.

The West Coast operation of Orowheat, which formerly comprised 13 bakeries, was sold to General Foods Corp. and became part of its Entenmann's Bakeries Inc. line of baked goods.

The East Coast operations of the

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Celanese boosts assumed return

By Barry B. Burr

NEW YORK — Celanese Corp., trying to avoid a repeat of the $410 million overfunding of the pension plan it terminated, is scrapping the traditional use of a low assumed rate of return in its new plan.

Millions of dollars rest on Celanese's action, and the saving could multiply if other corporations follow Celanese's lead.

In arriving at a new assumed return, Celanese officials questioned, in part, whether actuaries or financial executives should make the decision.

In addition, Celanese suggested a closer link between the corporate balance sheet and the pension plan.

Celanese adopted an assumed return of 10%, up from the 8.25% used in the last year of its terminated plan, according to its 1984 annual report. The change increased Celanese's net income by $4 million.

Charles S. Stephens, assistant controller, said the increase is "not being more aggressive, it's being more realistic."

The 8.25% assumed return Celanese used when the plan was terminated officially last year was higher than the median of 7.3% found by Greenwich Research Associates.

Celanese underwent a spinoff/termination, splitting its pension plan into one for retirees and one for active participants and placing the surplus into the retirees' plan. Annuities were purchased for participants in both

Charles S. Stephens: "Being more realistic."

plans, the retirees' plan then was terminated and Celanese recouped the excess assets.

Stanley V. Smith, managing partner of Ibbotson Associates Inc., Chicago, an economics consultant working with Celanese, suggests Celanese's decision could influence other corporations to reassess — and raise-

Continued on page 53

Active equity management

Rosenberg starts new firm

ORINDA, Calif. — Barr Rosenberg, a pioneer in the application of modern portfolio theory to pension funds and the founder of the consulting firm BARRA, has established an active equity investment management company.

Mr. Rosenberg said he had founded Rosenberg Institutional Equity Management with three partners, whom he declined to name.

He said the firm would invest in diversified equity portfolios designed to produce high returns per unit of risk based on a fundamental valuation model and using some aspects of market/price performance for timing of purchases and sales.

Mr. Rosenberg said the investment process would be highly quantitative. The valuation model "is a very subtle financial analysis system," he said.

The valuation model, he said, is based on insights gained through BARRA's quantitative analytical tools.

The typical portfolio will have more than 100 stocks identified by the valuation model, and the portfolio manager and trader will have no authority to overrule what comes out of the system.

However, they will be responsible for verifying the data put into the system for each of the stocks the valuation model identifies as a buy candidate.

Mr. Rosenberg would not say how large he expected the firm to grow. Since the valuation model had identified a large universe of stocks — 15% of the market — as being undervalued at any point in time, and since the model would select a smaller subset of this 15% for investment, "We expect that the firm can grow quite large before liquidity problems occur," he added.

Mr. Rosenberg, a former professor of business administration at the University of California at Berkeley, was an early advocate of applying modern portfolio theory to analysis of investment portfolios and their performance, and built Barr Rosenberg & Associates, later BARRA, into one of the top quantitatively based investment management consulting firms.

The firm first made a splash when it developed "fundamental betas" (beta is a measure of the risk or volatility of a stock compared with the risk or volatility of the market as a whole).

Dissatisfied with historic betas, which are derived by comparing past movements of a stock's price with historic market movements and which tended to change over time, Mr. Rosenberg examined which characteristics of companies produced market risk. He identified such factors as earnings growth, financial structure, immaturity, smallness and market valuation, and was able to combine the most important of these to derive more stable measures of beta.

The firm, which began with four employees in 1975 and now has 45, also developed asset allocation tools. Other tools allowed pension

Barr Rosenberg

fund executives to determine the impact of changes in money managers on their overall portfolios, what had contributed to a money manager's performance and whether that performance was the result of luck or skill.

BARRA also produced products related to bond management, options management and the use of financial futures.

BARRA now has more than 150 of the largest financial institutions and pension funds throughout the world as clients, according to Mr. Rosenberg.

Mr. Rosenberg said the new firm

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Consultants start new companies

By Richard J. Gillespie

Two key players in pension consulting are leaving their firms and will start their own businesses.

Vernon Hodge, principal and head of asset planning services for William M. Mercer-Meidinger Inc., has departed to set up PRIMCO Capital Management, a money manager specializing in active management of discretionary guaranteed investment contracts.

William Dreher, partner in charge of the human resources group at Peat, Marwick, Mitchell & Co., will step down at the end of the year. He will launch a firm that will service clients with Peat, Marwick's software.

No replacment has been named for either man.

Mr. Dreher denied his departure is related to a new business plan for Peat, Marwick under its new chairman, Larry D. Horner.

The day before he announced his resignation, he had denied there

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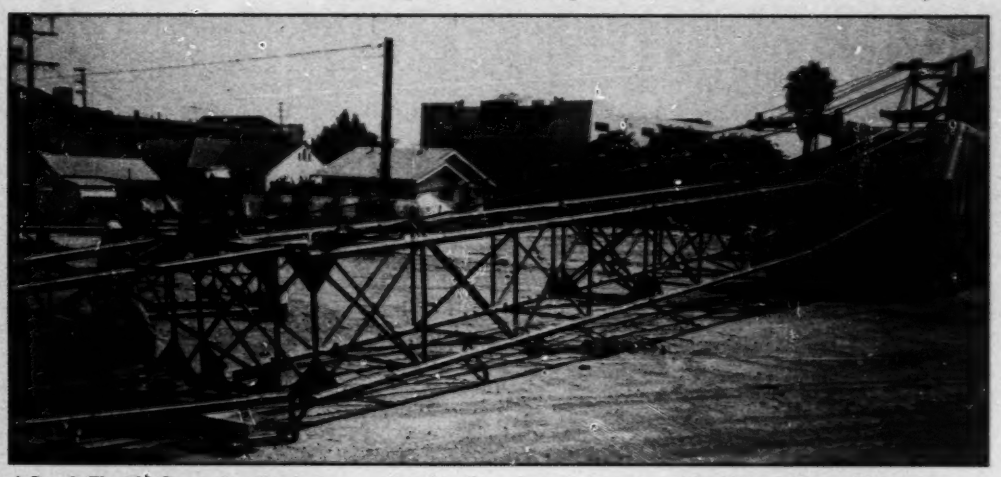

A South Florida Operating Engineers pension fund's real estate investment has been affirmed in court.

Union investment affirmed

By Joel Chernoff

FORT LAUDERDALE, Fla. — A federal judge's affirmation of a Southern Florida Operating Engineers pension fund's real estate investments might set back Labor Department efforts to crack down on social investing practices.

The bitterly contested court case had been watched by unions across the country considering real estate investments that generate jobs for their members.

The U.S. District Court here dismissed 1981 Labor Department charges that trustees of the Operating Engineers Local #675 pension fund had violated their fiduciary duty in financing a new union headquarters with plan assets, overpaying for construction and undercharging on the union's rent.

The department also had charged the investment had caused the fund to incur substantial losses, and garnered an inadequate return on investment for the fund. The court earlier had thrown out charges that the fund illegally had provided below-market rate mortgages to participants.

The trustees rebutted the Labor Department's allegations as unfounded, and suggested the lawsuit

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Late news

N. Ireland resolution

NEW YORK — A resolution to fight discrimination against Northern Ireland Catholics in the work place is expected to be approved by trustees of the $8 billion-plus New York City Employees Retirement System. The fund has $250 million in securities of U.S. companies with units in Northern Ireland.

Investment recovered

PHOENIX, Ariz. — Losing only its expected interest, the Arizona State Retirement System recovered the $210 million it had invested with EMS Government Securities Inc., the failed Fort Lauderdale, Fla., firm.

Late money movers

• CHICAGO — Beatrice Companies Inc. has moved to consolidate the roughly $660 million in pension and employee benefit plans of Beatrice and its subsidiaries, by hiring the Chase Manhattan Bank as its master trustee.

• NEW YORK — EQK Realty Investors I, the first closed-end, fully defined, equity real estate investment trust, became effective this month with institutional investors acquiring 95% of the $185 million offering, according to J. Steven Manolis, managing director in real estate at Salomon Brothers, New York, the lead underwriter.

Among the investors were the Beatrice Companies Inc. pension fund, American General Insurance Co., the Fidelity Discoverer Fund and Rieger, Robinson and Harrison, New York.

• FORT WORTH, Texas — The $234 million Employees' Retirement Fund of the City of Fort Worth hired two equity managers and three real estate managers.

The fund hired MSecurities Corp., Dallas, to run a $2.6 million equity portfolio and will invest $3.56 million in the Amcap Fund, an equity mutual fund that is part of American Funds Inc.

The fund also will give $10 million each to LaSalle Advisors Inc., Chicago, for a closed-end real estate fund and to Equitable Life Assurance Society of the United States, New York, and Aetna Life and Casualty Co., Hartford, Conn., for open-end funds.

• DALLAS — The National Gypsum Co., with total employee benefit assets of $280 million, has dedicated a $20 million bond portfolio for retired lives in its subsidiary, Austin Co., with Leavy Investment Management Inc., Atlanta. The $20 million previously was overseen by Morgan Guaranty.

• HOLLYWOOD, Fla. — The Hollywood Firemen's Pension Fund has hired Investment and Capital Management Corp., Rolling Meadows, Ill., to run an $8.5 million balanced account. The fund's $17 million had been managed solely by American Capital Advisors Inc., Houston, in a balanced account.

• ATLANTA — The $425 million Continental Telecom Inc. pension fund has hired Daniel Breen & Co., Houston, and Jakobson Cass Partners, New York, both for equities, and Manufacturers Hanover Investment Corp., New York, for a dedicated bond portfolio. It dropped Pacific Investment Management Co., Newport Beach, Calif., and Glickenhaus & Co., New York.

Personnel news

• NEWARK, N.J. — Prudential Asset Management Co. has named Robert G. Merrill president and director.

Mr. Merrill comes from a stint at the First City National Bank of Houston, where he was vice chairman, but previously had worked for Prudential from 1956 to 1978.

Robert E. Riley, who had been president, as well as chief executive officer, has been named chairman and CEO.

In another move, Robert M. Chmely, formerly senior vice president, has been named executive vice president. Mr. Chmely also serves as comptroller of PAMCO.

• NEW YORK — Three former employees of M.D. Sass Investors Services Inc., Thomas Daniels, Harvey Ross and Nancy Diggins, have left to join A.R. Schmeidler & Co. Inc. in New York.

• NEW YORK — Kenneth Smilen and Ken Safian, founders of Smilen & Safian Inc., have decided to split up after running money together for more than 25 years.

Consultant dies

CHICAGO — Paul J. Kole, the Chicago Transit Authority's pension fund consultant and former chief financial officer, died March 6. He was 50.

Debate heats up over financial issues

By Steve Hemmerick

A swashbuckling war of words has erupted among corporate and pension fund executives, money managers and financiers, all warriors in such takeover battles as the recent one for Phillips Petroleum Co.

Some are hoping for a truce: The Council of Institutional Investors, a group of public pension fund officials, is planning a meeting this spring to discuss hotly debated financial issues with corporate executives, pension fund officials and investment bankers.

A key issue in the debate is whether pension funds can do nothing but take short-term views of their investments, a serious situation for corporations that have much of their outstanding stock in the hands of pension funds and other institutional investors.

Other issues in the debate are:

• Whether institutional money managers, such as those used by pension funds, are short-term oriented and react negatively to companies that make long-term commitments, such as those with high research and development budgets.

• Whether institutional ownership makes a company more vulnerable to a takeover.

Some pension experts claim that pension funds don't have to take short-term gains; others say the funds should take those gains; and still others aren't sure.

The troubling scenario is this: A financier, or so-called corporate raider, buys a block of stock, possibly 7% or more, in a corporation in which there is heavy institutional investment and in which the stock is selling at a low price in relation to the value of corporate assets.

News Analysis

As word of the financier's investment leaks out, a possible takeover or greenmail payment is considered. Speculators and others begin bidding up the price of the stock.

Then some pension funds and their money managers begin selling the corporate shares to take a profit, partly because of the pension fund's investment guidelines or the money manager's disciplined sell guidelines. The increased value of the stock acts as a trip wire for sell orders, at the same time providing a ready market for financiers to buy up the stock with money lent from deals worked out by investment bankers. Billions of dollars are now at the ready.

Fearing a takeover, the company begins anti-takeover moves, instituting poison pills, such as selling off valuable subsidiaries or piling up the company's debts, in part to pay off the financier through greenmail.

A new twist is that corporate executives now can be dragged into a pension arena where financial lust is heightened by catcalls from financiers and the fast buck becomes the only issue. At risk, corporate executives say, is the cannibalization of American industries.

But pension experts claim they can, and do, look at the short-term and long-term prospects of a company. In many cases, management has been lethargic, more interested in its own jobs, not the interests of shareholders.

They claim corporate executives who once turned a deaf ear to social issues now throw job worries and community economic development into the faces of pension executives. Some of the warriors say if someone else can increase the value of corporate assets, let him. That's what investments are all about, they say.

They contend that not all mergers or takeovers are bad, and that corporate executives are throwing up a smokescreen, using pension funds as scapegoats.

A recent SEC study seems to support that scapegoat view. It found that companies with heavy institutional ownership were less likely to be targets of raiders than companies with low institutional ownership. In addition, companies with high research and development spending had higher institutional ownership than companies with low R&D budgets, suggesting institutions do take the long-term view.

But Ian Lanoff, secretary and general counsel to the Council of Institutional Investors, said the issues aren't black and white. He said pension funds can take the long-term view. Even though some might find it "hard to believe," he said, a corporation could make a good defense of paying off greenmail or using a poison pill defense.

But, said Mr. Lanoff, some securities lawyers now contend that fiduciary responsibility obligates pension fund officials to take a

Continued on page 54

Few foundations liquidate holdings

By Fred Williams

Only a few private foundations have begun to liquidate holdings in the companies that formed their initial bequests, and they are doing so grudgingly.

Foundation officials say they are parking their bundles of cash in fixed-income instruments until new asset allocation studies are complete. They also clearly resent the need to liquidate, and say the federal law requiring it will hinder the creation of new foundations.

Liquidation is required under a 1969 Internal Revenue Code revision, which limits foundations to tieing up between 20% and 35% of their assets in a single holding, depending on when the assets were acquired.

Prior to the revision, some foundations had as much as 100% of their assets in one holding, often stock in the company that bankrolled the foundation.

While only a few private foundations are caught up in the tax code provisions, some of them are the more widely known foundations and the asset value of the divestitures is often substantial.

"Today, I would be hard pressed to find perhaps 20 foundations out of 21,000 with any problems with excess business holdings actions," said John Edie, vice president and general counsel of the Council on Foundations in Washington.

Three private foundations are mentioned most often as experiencing complications in complying with the excess business holdings provisions — the Altman Foundation, the John D. and Catherine T. MacArthur Foundation and the W.K. Kellogg Foundation — but other lesser known ones are having an equally difficult time in parting with some of their holdings.

The $1.3 billion Kellogg Foundation received $563 million from selling 15 million shares of Kellogg Co. stock to the company late last year, a transaction initiated by the foundation.

"The pressure was on us, not on the company," said William Fritz, assistant vice president and assistant treasurer of the foundation. "We started negotiations with the company after privately hiring an investment banker to assess the value of the stock. With that information, we approached the company and they responded."

Mr. Fritz said the cash was reinvested immediately in the fixed-income market, with part being managed internally and part with the foundation's existing investment managers. He said the foundation is conducting an asset allocation survey to determine the ultimate disposition of its assets.

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Top '84 public funds

By Trudy Ring

Last year's top-performing public pension fund portfolios were concentrated in bonds, although those with large positions in stocks had the best results for the past three and five years.

The $9.3 billion Ohio Public Employees Retirement System, Columbus, had a 25.8% return in 1984, placing it first in the Prudential-Bache Securities public retirement funds universe of 88 portfolios. The fund, which is internally managed, was 75% in fixed income and 25% in equities.

All numbers are as of Dec. 31.

Second for the year was the $62.8 million account managed by Heritage Investment Advisors Inc., Milwaukee, for the $364 million Milwaukee County Employees Retirement Fund.

Entirely in fixed income, the portfolio had a 17% return.

The Minnesota State Board of Investment's Permanent School Fund was third, with a 15.9% return. The $308.1 million fund is run in-house. Asset allocation was 82% fixed income, 18% equities.

Managers of the top-performing funds agreed that a large position in bonds helped in a year when bonds outperformed stocks generally. The Salomon Brothers Corporate Bond Index was up 16.4% for 1984, while the Standard & Poor's 500 stock index returned 6.3%.

"One reason the Permanent School Fund did very well was it was heavily weighted in bonds," said Howard Bicker, executive director of the Minnesota state board. The fund was primarily in government issues and pass-through securities, he said.

An official of Heritage Invest-

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Type of successor plan adopted before and after release of Administration plan termination guidelines*

Defined benefit

	Number of plans	Percentage of plans	Number of participants	Percentage of participants
Pre-Guidelines (1/84-5/84)	33	43%	20,581	23%
Post-Guidelines (6/84-1/85)	90	50%	162,796	68%

	Number of plans	Percentage of plans	Number of participants	Percentage of participants
Pre-Guidelines (1/84-5/84)	43	57%	69,316	76%
Post-Guidelines (6/84-1/85)	89	50%	72,455	32%

*Data includes plan terminations only where a successor plan was indicated.

Source: Pension Benefit Guaranty Corp.

Successor-plan data show

Defined benefit plan use up

By Joel Chernoff

WASHINGTON — The percentage of participants covered by a successor defined benefit plan after their old plan was terminated has tripled since the Reagan administration unveiled its plan termination guidelines last May.

Calculations by the Pension Benefit Guaranty Corp. reveal that since the guidelines were announced, 68% of participants are covered by successor defined benefit plans when the employer provides a replacement plan.

That is up sharply from a 23% rate in the five-month period prior to the guidelines' adoption.

"There has been a dramatic — at least a threefold increase — in participants in successor defined benefit plans since the administration guidelines took effect," said David Walker, deputy executive director of the PBGC.

The numbers bear out the administration's goal of restricting abuses, but not forcing people out of the defined benefit system, Mr. Walker said.

The figures are based on termination applications received in the five months preceding, and the eight months following, May 24, when the administration guidelines on asset reversions were released.

The calculations cover terminations involving reversions of $1 million or more.

While the figures are not without their problems, they clearly indicate a reversal in the type of replacement plan adopted following a plan termination, particularly for larger companies.

The trend provides strong support for the administration's view that the guidelines would keep more participants in the defined benefit system.

"It seems consistent with what people thought would happen," said Dallas Salisbury, president of the Employee Benefit Research Institute, Washington.

Pension experts say defined benefit plans offer more predictable payouts to participants than such defined contribution plans as 401(k) plans, money purchase and profit-sharing plans.

In a defined benefit plan, a participant receives a fixed benefit, based on a formula usually involving years of service and salary. In a defined contribution plan, the employer is bound to contribute a fixed amount annually, but the investment risk is borne by the participant.

The administration guidelines encouraged employers to maintain defined benefit plans by allowing firms to engage in certain kinds of terminations whose legality was considered murky.

In fact, Rep. Edward Roybal, D-Calif., the chairman of the House Select Committee on Aging who favors shutting down these transactions and otherwise restricting asset reversions, demanded in a recent letter that the PBGC justify the techniques' legality.

The controversial techniques, which are known as spinoff/terminations and termination/re-establishments, allow a firm to keep a successor defined benefit plan while recapturing surplus plan assets.

Previously, a firm would have had to replace the terminated plan with a defined contribution plan or none at all.

In a spinoff/termination, an employer generally splits the plan into two separate plans, one for retirees and vested participants and one for active participants. The surplus assets are included in the retiree plan, which then is terminated, allowing the employer to recapture the excess.

In a termination/re-establishment, the old plan is completely terminated, allowing the company to recapture the surplus assets, and a similar plan is created.

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